



Town of Port Hedland

MINUTES

OF THE

AUDIT AND FINANCE COMMITTEE

HELD ON

WEDNESDAY 30 MARCH 2011

AT 3.00 PM

IN COUNCIL CHAMBERS
MCGREGOR STREET, PORT HEDLAND

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Town of Port Hedland for any act, omission, statement or intimation occurring during Council Meetings. The Town of Port Hedland disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission, and statement of intimation occurring during Council Meetings.

Any person or legal entity that acts or fails to act in reliance upon any statement, act or omission occurring in a Council Meeting does so at their own risk. The Town of Port Hedland advises that any person or legal entity should only rely on formal confirmation or notification of Council resolutions

*Natalie Octoman
Director Corporate Services*

OUR COMMITMENT

To enhance social, environmental and economic well-being through leadership and working in partnership with the Community.

TABLE OF CONTENTS

1.1	OPENING.....	3
ITEM 2	RECORDING OF ATTENDANCE AND APOLOGIES	3
2.1	ATTENDANCE.....	3
2.2	APOLOGIES	3
2.3	APPROVED LEAVE OF ABSENCE	3
ITEM 3	RESPONSE TO PREVIOUS QUESTIONS – ON NOTICE	3
ITEM 4	PUBLIC TIME	3
4.1	PUBLIC QUESTIONS.....	3
4.2	PUBLIC STATEMENTS.....	4
ITEM 5	QUESTIONS FROM MEMBERS WITHOUT NOTICE	4
5.1	<i>Mayor Kelly Howlett</i>	<i>4</i>
ITEM 6	DECLARATION BY MEMBERS TO HAVE GIVEN DUE CONSIDERATION TO ALL MATTERS CONTAINED IN THE BUSINESS PAPER PRESENTED BEFORE THE MEETING.....	4
ITEM 7	CONFIRMATION OF MINUTES OF PREVIOUS MEETING	4
7.1	CONFIRMATION OF MINUTES OF AUDIT AND FINANCE COMMITTEE OF COUNCIL HELD ON WEDNESDAY 16 FEBRUARY 2011	4
ITEM 8	ANNOUNCEMENTS BY CHAIRMAN WITHOUT DISCUSSION ..	4
ITEM 9	PETITIONS/DEPUTATIONS/PRESENTATIONS/SUBMISSIONS	4
ITEM 10	REPORTS OF OFFICERS	5
10.1	CORPORATE SERVICES	5
10.1.1	FINANCE AND ADMINISTRATION.....	5
10.1.1.1	<i>2009/10 Audited Financial Statements</i>	<i>5</i>
ITEM 11	LATE ITEMS AS PERMITTED BY CHAIRPERSON/COMMITTEE	10
ITEM 12	MOTIONS OF WHICH PREVIOUS NOTICE HAVE BEEN GIVEN	10
ITEM 13	CONFIDENTIAL ITEMS.....	10
ITEM 14	APPLICATIONS FOR LEAVE OF ABSENCE	10
ITEM 15	CLOSURE	10
15.1	DATE OF NEXT MEETING	10
15.2	CLOSURE.....	10

ITEM 1 OPENING OF MEETING**1.1 Opening**

The Chairperson declared the meeting open at 3:28pm and acknowledged the traditional owners, the Kariyarra people.

ITEM 2 RECORDING OF ATTENDANCE AND APOLOGIES**2.1 Attendance**

Deputy Mayor A A Carter (Chairman)
Mayor Kelly Howlett
Cr Bill Dziombak

Mr Paul Martin
Ms Natalie Octoman
Mr Eber Butron

Ms Abby Carter

Chief Executive Officer
Director Corporate Services
Director Planning and Development
Services
Executive Assistant Corporate
Services

2.2 Apologies

Cr Stan Martin

2.3 Approved Leave of Absence

Nil.

ITEM 3 RESPONSE TO PREVIOUS QUESTIONS – ON NOTICE

Nil.

ITEM 4 PUBLIC TIME

3:28pm Chairperson opened Public Question Time

4.1 Public Questions

Nil.

3:28pm Chairperson closed Public Question Time

3:28pm Chairperson opened Public Statements Time

4.2 Public Statements

Nil.

3:28pm Chairperson closed Public Statements Time

ITEM 5 QUESTIONS FROM MEMBERS WITHOUT NOTICE

5.1 Mayor Kelly Howlett

Mayor Howlett asked for the Agendas and Minutes of previous Audit and Finance Committee meetings to be uploaded on the Town of Port Hedland website.

ITEM 6 DECLARATION BY MEMBERS TO HAVE GIVEN DUE CONSIDERATION TO ALL MATTERS CONTAINED IN THE BUSINESS PAPER PRESENTED BEFORE THE MEETING

Mayor K A Howlett	Cr M (Bill) Dziombak
Cr A A Carter	

ITEM 7 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

7.1 Confirmation of Minutes of Audit and Finance Committee of Council held on Wednesday 16 February 2011

AFC201011/10 Officer's Recommendation/Audit and Finance Committee Decision

Moved: Cr K A Howlett

Seconded: Cr M Dziombak

That the Minutes of the Audit and Finance Committee Meeting of Council held on Wednesday 16 February 2011 be confirmed as a true and correct record of proceedings.

CARRIED 3/0

ITEM 8 ANNOUNCEMENTS BY CHAIRMAN WITHOUT DISCUSSION

Nil.

ITEM 9 PETITIONS/DEPUTATIONS/PRESENTATIONS/SUBMISSIONS

Nil.

ITEM 10 REPORTS OF OFFICERS**10.1 CORPORATE SERVICES****10.1.1 Finance and Administration****10.1.1.1 2009/10 Audited Financial Statements**

Officer Natalie Octoman
Director Corporate Services

Date of Report 25 March 2011

Disclosure of Interest by Officer Nil

Summary

For the Committee to recommend the adoption of the 2009/10 Audited Financial Statements and Associated Notes to Council, and to consider the Audit Management letter from Council's Auditor.

Background

On 23 March 2011, Council received its audited 2009/10 Financial Statements and Associated Notes, Audit Report and Management Report (attached) from Mr Greg Godwin, Partner of UHY Haines Norton and the Town of Port Hedland Auditor.

The 2009/10 Audited Financial Statements (and associated notes) is the annual "report card" of Council, effectively advising both Council and Community:

1. How effectively the Council has used public funds in delivering its services (Operating Surplus \$5,127,751, 50.9% increase from the Original Budget); and
2. The net value of Council's assets or Council's worth (\$179,913,142, 8.2% increase from previous year); and
3. Council's cash assets and how they have been utilized (\$32,207,586 increase in closing cash position as compared to the original budget).

The associated notes provide greater detail into the various components of the statements while comparing the year's results with either previous year's results or budget estimates. Both the Statements and associated notes are produced in accordance with the Australian Accounting Standards, the Local Government Act and associated regulations to provide the necessary information required by the public to determine the Council's worth and sustainability for the future.

The Audit Report (Opinion) is an independent report or opinion on the reasonableness of the information contained with the Annual Statements. Accounting is not an absolute science, and therefore Auditors are

required to provide confidence to users of the annual statements as to their accuracy and fairness. According to the Town's Auditor, Mr Greg Godwin, the 2009/10 statements are considered "true and fair" and comply with the relevant standards and legislation.

Local Government Auditors are also required to advise Council and the community of any non compliance with the Local Government Act. During the 2009/10 audit, Mr Greg Godwin has not identified any non-compliance with the requirements of the Local Government Act or the associated regulations.

The Auditor also issues a "Management Report" which allows the auditor to formally raise points or issues, which currently do not affect their overall opinion of the Council's financial management, but if not addressed may result in future qualifications or misstatements of a financial nature. Generally these are not publicised as they are chiefly for internal use, and may confuse external users on the Auditor's true opinion.

In the 2009/10 Management Report, the Town's Auditor has effectively raised issues around five key areas. These being:

1. Fixed Assets;
2. Council Minutes of Meetings;
3. Annual Returns;
4. Bank Reconciliations; and
5. Loan Payments.

These will be addressed in the commentary section of the report. The other sections within the report, Corrected and Uncorrected Misstatements are an audit requirement to identify, and are not a significant concern.

Consultation

Nil

Statutory Implications

Local Government Act 1995

5.54. Acceptance of annual reports

(1) Subject to subsection (2), the annual report for a financial year is to be accepted by the local government no later than 31 December after that financial year.*

** Absolute majority required.*

(2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

Strategic Planning Implications Nil

Budget Implications

The 2009/10 Audited Financial Statements produce an Actual Cash Surplus of \$6,144,881. Currently Council's Amended Budget is based on a budgeted carried forward surplus of \$6,214,471. The \$69,590 shortfall will need to be accommodated in the March Budget Review, as this is still required to fund uncompleted no-operating (capital) projects from the previous year.

Officer's Comment

The audited 2009/10 financial statements effectively "closes the book" with regard to the 2009/10 Financial Year. From a community perspective, Council has clearly shown it is committed in delivering much needed infrastructure (\$9.625 million in new infrastructure assets). This demonstrates Council ability to now deliver what it proposes in the budget resulting in tangible benefits to the Port Hedland Community. This has also been achieved while increasing the actual operating surplus, increasing net assets and increasing cash backed reserves.

Given the audit opinion that the 2009/10 Statements are a "true and fair" representation of the Council's financial position as at 30 June 2010, the Committee should have confidence that Council's financial management is strong and meets the requirements of the Australian Accounting Standards and relevant legislation.

Of the issues raised in the management report, it is proposed to address them in the following manner:

Accounting errors in relation to Fixed Assets

No stated depreciation policy for Parks, Ovals and Street Verges

After discussions with the auditors, it was clarified that this was mainly in relation to the amenity improvements that were occurring around the Town, in particular tree planting and reticulation whereby there is not a separate category within the depreciation schedule within the notes of the financial statements, to apply. This will be reviewed in the coming months to ensure that the Town's assets have appropriate depreciation categories and therefore depreciation rates, in accordance with the regional depreciation schedules recommended by the Department of Local Government.

Inadequate controls over the impairment of assets

Impairment of assets is relatively new to the Australian Accounting Standards only being implemented in 2005. There are several indicators that may be used to determine if an asset has been impaired and may include evidence of physical damage to the assets, computer software that is obsolete, or there has been a significant decline in the assets' market value as a result of time or usage.

Procedures will be developed along with a very simple checklist for each asset class to ensure that there are adequate controls over the impairment of assets and that impairment testing is undertaken appropriately each financial year in accordance with the accounting standards.

Accurate Fixed Asset Depreciation generated Annually only

While it has been indicated in the Management Report that there was a discrepancy between the estimated depreciation and actual depreciation of \$234,354, based on an asset base of \$140.7 million and an annual depreciation expense of \$4.8 million, this is well within materiality levels.

Depreciation is a non cash item and does not affect the overall surplus of Council. It therefore does not affect the ability of Council to fund projects. In saying this, depreciation has only been run on an annual basis to date given its impact on the disposal of assets process which is only accounted for at year end due to the ledger entries required, and cannot be completed during the financial year. Monthly depreciation run through the financial system will be trialled in the upcoming months to determine its overall impact on this process.

Maintenance being capitalized

Continued turnover of staff across the Town has increased the occurrences of this taking place. While there are checks that take place within the finance team, this does not identify all occurrences. Further training will take place upon development of the Asset Management Framework, which will incorporate an Asset Recognition Policy and be distributed across the Town.

GST incorrectly claimed on Staff Housing

As there were initially 4 units of the 8 being for staff housing, GST should not have been claimed but was. This has been rectified and returned to the Australian Taxation Office in the following BAS return as recommended.

Council Minutes of Meetings Not Signed Promptly or at all

This was raised by the auditors at the interim audit. This will be rectified by establishing a clear process for the Mayor to sign the minutes upon their completion.

Annual Returns not submitted on time

Little can be done to correct this issue other than to remind Councillors of the need to fully complete their Annual Returns on time. Instruction on how to complete the form was issued with the last returns, and it is the individual Councillors responsibility to ensure that it is completed accurately and in a timely manner.

Review of Bank Reconciliations

Currently bank reconciliations are prepared daily with the final one for the month being incorporated into the Council Agenda within the monthly financial statements.

Having a signed version as recommended by the auditors was not deemed to be necessary given the minutes incorporate the final bank reconciliation for the month and it is presented by the Finance Manager (therefore effectively signing off the bank reconciliation), but having a second finance person to physically sign the bank reconciliation would only improve the controls, therefore this will be implemented.

Duplicate Loan Payment

The loan payment referred to is one that is direct debited from our account, and is the only one of this nature. When the loan payments are processed through the system it automatically generates a cheque that is required to be cancelled so that the direct debit can be recognised instead and not be duplicated. Due to staff turnover, the cheque for one of the payments was not cancelled and therefore a duplicate payment was made. This has been discussed with the lender who has agreed to forgo one of the payments this year, in recognition of the error made.

Attachments

Audit Report
Management Report
2009/10 Audited Financial Statements

Officer's Recommendation

That the Audit and Finance Committee:

- i) Receive the audited 2009/10 Financial Statements and associated notes, the Audit Report and Management Report; and
- ii) Recommend to Council the inclusion of the audited 2009/10 Financial Statements and associated notes, and the Audit Report in the 2009/10 Annual Report.

AFC201011/11 Audit and Finance Committee Decision

Moved: Cr K A Howlett

Seconded: Cr M Dziombak

That the Audit and Finance Committee:

1. Receive the audited 2009/10 Financial Statements and associated notes, the Audit Report and Management Report; and
2. Recommends to Council the inclusion of the 2009/10 Financial Statements and associated notes, and the Audit Report in the 2009/10 Annual Report;

3. Recommends to Council to adopt an asset recognition threshold amount of \$2,000 from 1 July 2011, with the exception of network assets, particularly IT equipment, that will continue to be recognised as an asset;and
4. Recommends to Council to establish an attractive items register for items under \$2,000 that will not be recognised as an asset, but that will be used for insurance purposes; and
5. Requests the CEO to draft an Asset Recognition Policy for consideration prior to 30 June 2011.

CARRIED BY ABSOLUTE MAJORITY 3/0

ITEM 11 LATE ITEMS AS PERMITTED BY CHAIRPERSON/COMMITTEE

Nil.

ITEM 12 MOTIONS OF WHICH PREVIOUS NOTICE HAVE BEEN GIVEN

Nil.

ITEM 13 CONFIDENTIAL ITEMS

Nil.

ITEM 14 APPLICATIONS FOR LEAVE OF ABSENCE

Nil.

ITEM 15 CLOSURE

15.1 Date of Next Meeting

The next Audit and Finance Committee Meeting of Council will be held on at date and time that is to be confirmed by the Presiding Member.

15.2 Closure

There being no further business, the Chairman declared the meeting closed at 3:35 pm.

Declaration of Confirmation of Minutes

I certify that these Minutes were confirmed by the Audit and Finance Committee at its Ordinary Meeting of _____.

CONFIRMATION:

MAYOR

DATE